



Janet Napolitano, Governor

J. Elliott Hibbs, Director

Inside this issue:

STANDARD MILEAGE SET

REPEAL OF AZ
\$5 WITHHOLDING

EFILE FACTS

AZ TAX AMNESTY
PROGRAM ENDS

ARIZONA TAX TALK 2003

REFINANCING COSTS MAY
BE DEDUCTIBLE

BRITS RELEASE ONE

ARIZONA DEPARTMENT OF REVENUE

MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

www.revenue.state.az.us

REPEAL OF ARIZONA \$5 WITHHOLDING

HB 2001, passed by the legislature during the current special session and signed by the Governor (on October 24, 2003), repeals the minimum withholding of \$5 per month that was

enacted last regular session. The bill has an emergency clause, which makes it effective upon signature of the Governor. Therefore, as of October 24, 2003 there is no minimum withholding requirement.

2004 STANDARD MILEAGE RATES SET — 800,000 MORE BUSINESSES ELIGIBLE

IR-2003-121, Oct. 15, 2003

WASHINGTON — The Internal Revenue Service today released the optional standard mileage rates to use for 2004 in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

To reduce a recordkeeping burden, the IRS also announced that taxpayers who use no more than four vehicles at the same time for business purposes may use the standard mileage rate, starting in 2004. Currently, those using more than one vehicle at a time cannot use the standard rate at all, leaving them to track the actual expenses for each vehicle.

“With this change, more than 800,000 businesses will become eligible to use the standard mileage rate,” said IRS Commissioner Mark W. Everson. “This reflects our ongoing interest in reducing the burden for businesses to comply with the tax laws.”

Although many taxpayers may still claim actual vehicle expenses for various reasons, the IRS estimates that small businesses will save 8-10 million hours a year in recordkeeping with this expansion of the standard rate option.

A taxpayer may not use the standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, or for any vehicle used for hire.

Beginning January 1, 2004, the standard mileage rates for the use of a car (including vans, pickups, or panel trucks) will be:

- 37.5 cents a mile for all business miles driven, up from 36 cents a mile in 2003;
- 14 cents a mile when computing deductible medical or moving expenses, up from 12 cents a mile in 2003; and
- 14 cents a mile when giving services to a charitable organization.

(Continued on page 4)

*** REMINDER ***

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your
October 2003 TPT return no later than
November 25, 2003 or deliver to DOR no
later than November 26, 2003.

September Summary of General Fund Revenues

	September 2003	Fiscal Year Total
Individual Income Tax		
Net Collections	\$200,558,751	\$487,472,105
Percent Change*	1.7%	3.4%
Corporate Income Tax		
Net Collections	\$87,923,577	\$112,148,010
Percent Change*	21.5%	13.6%
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$266,948,000	\$799,685,184
Change*	6.9%	6.5%
Total Big Three Tax Types		
Net Collections	\$555,430,328	\$1,399,305,299
Percent Change*	7.0%	5.9%

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax

Individual Income Tax Receipts

	Sept. 2003	Sept. 2002	% Change
Gross Collections	\$71,246,053	\$68,951,388	3.3
Withholding	179,587,853	174,722,202	2.8
Refunds	(19,853,058)	(10,677,997)	85.9
Urban Rev Sharing	(30,422,097)	(35,879,921)	(15.2)
Net Collections	\$200,558,751	\$197,115,671	1.7
			%
Fiscal Year Total	(03/04)	(02/03)	Change
Gross Collections	\$94,203,056	\$89,775,692	4.9
Withholding	527,623,951	541,269,757	(2.5)
Refunds	(43,088,613)	(51,860,921)	(16.9)
Urban Revenue Sharing	(91,266,290)	(107,639,763)	(15.2)
Net Collections	\$487,472,105	\$471,544,765	3.4

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. After offsetting \$11,429 in tax liability, \$81,119 was refunded. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit.

TAX CALENDAR

NOVEMBER 2003

Due Date	For Period Ending
11	State Holiday - Veteran's Day, All State Offices Closed
17	Income Tax Returns: 7/31/03
	Form 120: Corporation
	Form 140: Individual
	Form 141: Fiduciary
	Form 165: Partnership
17	Form 120: Corporation with 1/31/03
	Automatic Extension
17	Form 120S: S Corporation 8/31/03
17	Form 99: Exempt Organization 6/30/03
	Annual Information Return
	Form 99T: Exempt Organization 7/31/03
17	Form 120ES: Estimated Tax Payment, Corporation
	First Installment 7/31/04
	Second Installment 5/31/04
	Third Installment 2/28/03
	Fourth Installment 11/30/03
20	Form TPT-1: Transaction Privilege Tax: 10/31/03
	October Monthly Filers
20	Bingo: Financial Reports 10/31/03
20	Luxury Tax: Various Forms 10/31/03
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: 10/31/03
	October Monthly Filers
27	State Holiday - Thanksgiving, All State Offices Closed

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-716-6797 or toll free from area codes 520 & 928, 1-877-863-0655.

E-FACTS... LITTLE DID YOU KNOW

1.5 million Arizona taxpayers can receive their refunds in as little as 7 days this year. Faster refunds is just one of the many e-file benefits provided through the Fed/State e-file program. Refunds are received in as little as 7 days and are safer with direct deposit option. A refund using the traditional paper filing method can be delayed by as many as 12 weeks. **Your clients deserve the best service possible...e-file returns as part of your client services!**

733,422 Arizona taxpayers didn't lie awake at night wondering if their 2002 tax return was received by DOR. Taxpayers' who e-file receive confirmation that the department received their return. This service is not available when using the traditional paper filing method. **Help your clients sleep at night...e-file returns as part of your client services!**

316,124 taxpayers received their 2002 income tax refund within 7-10 days. It's easy to provide this level of service to your client just by encouraging them to e-file and choose the direct deposit option. **Make sure your client counts...e-file for faster refunds!**

96% of Arizona income tax returns are eligible to be e-filed. E-file is the fastest, easiest, and most accurate way to file. **Increase client satisfaction...e-file returns as part of your client services!**

You could be on vacation April 15th. E-file is not just for refund returns. Clients who are not expecting a refund can schedule their appointments early in the tax season. The return can be e-filed early and the Electronic Funds Withdrawal (direct debit) payment option can be used to pay the tax due by the April deadline without even writing a check or mailing an envelope. 17,219 took advantage of the security and convenience of direct debit. **Schedule your well-deserved vacation early...e-file returns as a part of your client services!**

You could be Number 1! Tax preparation software eliminates errors you may make, and e-file processing of the Federal and state return eliminates most errors. The error rate on e-file returns is less than 1%. **Clients don't like getting tax change notices from DOR... e-file returns as a part of your client services. You'll be Number 1 with your clients!**

E-file...

...The benefits are endless!

...The rewards are bountiful!



E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to: TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

ARIZONA TAX TALK 2003

Mark your calendar now for this year's Arizona Tax Talk. Arizona Department of Revenue joins Arizona Forum for the Improvement of Taxation (AFIT) and the Internal Revenue Service for this year's conference.

The cost for the two-day conference will be \$139 per person and will include access to all sessions, handouts, up to 15 hours of continuing professional education (CPE) credit, continental breakfast, lunch and afternoon snacks. Cost for attending one day will be \$100 per person.

Dates scheduled are:

December 2 & 3—Sheraton Phoenix Airport, 1600 S 52nd St., Tempe 85281.

December 9 & 10—Radisson Hotel City Center Tucson, 181 W Broadway, Tucson 85701.

December 16 & 17—Glendale Civic Center, 5750 W Glenn Dr., Glendale 85301

Please check the website at www.revenue.state.az.us or call Community OutReach and Education at 602-716-6793 or, toll free from area codes 520 & 928, 1-877-863-0655 for additional information.

IRS Sets Mileage Rates

(Continued from page 1)

Members of Congress welcomed the change.

Senator Olympia J. Snowe of Maine, chair of the Senate Committee on Small Business and Entrepreneurship, said, "I applaud the IRS for adopting this simplification measure for small businesses. This change will allow certain small businesses to put a stop to the time-consuming, costly and inconvenient practice of maintaining detailed paper records and, instead, use a simpler, standard mileage rate for business travel expenses when preparing their taxes. The IRS is providing the kind of relief that small business owners critically need: relief that allows them to cut the time spent complying with tax laws while expanding the time left over to do what they do best, namely running their businesses and creating critical jobs for this economy."

Rep. Don Manzullo of Illinois, chairman of the House Small Business Committee, said, "These changes by the Internal Revenue Service will provide additional needed tax relief to our struggling small businesses so they can once again lead us to recovery. More than 800,000 small businesses will benefit from these changes. In addition to the tax reductions, they will save eight to 10 million hours a year in record-keeping burdens so that they can now focus on their

businesses. I congratulate IRS Commissioner Everson for his leadership in making these changes and helping America's small businesses."

Rep. Doug Ose of California, Chairman of the House Government Reform Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs, which has principal oversight over paperwork reduction, said, "I applaud Commissioner Everson's initiative, which will result in a 8-10 million hour burden reduction for small businesses. The paperwork burden on small business is enormous. This reduction in tax recordkeeping is a step in the right direction."

The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. The primary reason for the mileage rate increases is the rise in fuel prices during the study period, which ended on June 30. An independent contractor, Runzheimer International, conducted the study on behalf of the IRS. The charitable standard mileage rate is set by law. Revenue Procedure 2003-76 contains additional information on these standard mileage rates. It will appear in Internal Revenue Bulletin 2003-43, dated October 27, 2003.

SOME REFINANCING COSTS MAY BE DEDUCTIBLE

IR-2003-127, Nov. 3, 2003

WASHINGTON — The Internal Revenue Service reminded taxpayers who took advantage of this year's low interest rates to refinance their mortgages that they may be eligible to deduct some costs associated with their loans.

Generally, taxpayers who itemize may deduct the "points" paid to obtain a home mortgage as interest. They may deduct the points on the mortgage related to a home purchase or a home improvement in the year paid, but for other loans — such as a refinanced mortgage — they must deduct the points over the life of the loan.

To figure the annual deduction amount, divide the total points paid by the number of payments to be made over the life of the loan. Usually, this information is available from the lender. For example, a homeowner who paid \$2,000 in points on a 30-year mortgage (360 monthly payments) could deduct \$5.56 per payment, or a total of \$66.72 for 12 payments.

Taxpayers may deduct points only for those payments actually made in the tax year.

A taxpayer who uses part of the refinanced mortgage money to pay for improvements to the home, and meets certain other requirements, may generally deduct the points associated with the home improvements in the year paid, spreading out the rest of the points over the life of the loan.

When refinancing for a second time, or paying off a loan early, a taxpayer may deduct all the not-yet-deducted points from the first refinancing when that loan is paid off.

Other closing costs, such as appraisal fees and processing fees, generally are not deductible. Taxpayers with adjusted gross income above \$139,500 — \$69,750 if married filing separately — also face limits on the amount of deductions they can take.

IRS Publication 936, Home Mortgage Interest Deduction, has details on deductions related to refinancing.

ARIZONA TAX AMNESTY PROGRAM ENDS

The Arizona Tax Amnesty Program ended on Friday, October 31, 2003. As of this print date, final results have not been determined. The results will be posted as they become available.



DOR PREPARES FOR RELEASE ONE OF INTEGRATED SYSTEM

As DOR prepares for Release One on January 2, 2004, the department is looking for ways to take advantage of the opportunities provided by integrating our tax types into a single system. One of the benefits of integration is that taxpayer billings can be consolidated so that a single statement goes out for all tax types. The department will realize cost reductions for paper and postage through consolidation, as well as by reducing processing time and the amount of paper moving through the processing functions.

Recognizing that this will not work for all taxpayers, separate billing statements are also possible, and may be mandatory, depending on how client representation is managed by the taxpayer and their tax professional. In these cases, the department will continue to send the separate statements to practitioners as is now the case.